

## Your DCAA Problems Are Real and Are Not a Symptom of Mass Hysteria

Written by Nick Sanders  
Thursday, 15 March 2012 00:00

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The perception is growing, ever so slowly, that contractors' continued cavils against DCAA are not the result of mass hysteria, or the result of drinking a special type of DARPA kool-aid. Slowly, but surely, even the most ardent DCAA defender is beginning to realize that *opportunities for improvement* in the DOD's oversight regime exist.

It's been just over a year since DCAA Director Pat Fitzgerald [testified](#) before the Senate. Though he defended the status quo, other witnesses criticized DCAA. More recently, GAO [told Congress](#) that “

*DCAA, because of workforce challenges of its own, is not at present able to fulfill its business system audit responsibilities and is not likely to be in a position to do so in the near term given its other priorities.”*

Somebody in Congress must have listened, because (as we told you) Section 805 of the FY2012 National Defense Authorization Act requires the DCAA Director to issue a report to Congress providing (among other things) statistics regarding the total number of audit reports “completed and pending,” the length of time for each type of audit, and “an assessment of the number and types of audits pending for a period longer than allowed” pursuant to DCAA guidance.

Contractors have been complaining about DCAA since forever but, in the past few years (starting with “reforms” enacted by the audit agency in reaction to GAO findings from reports issued in 2008 and 2009), those complaints have reached a crescendo—a veritable cavalcade of criticism that was, until quite recently, apparently discounted by most outside the industry as just more whining about audit findings. Several commenters opined that the complaints indicated that DCAA was doing something right.

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We reported on a 2011 study by Deltek (maker of accounting software for government contractors) [right here](#). In that article, we told our readers that, when confronted by a reporter's questions regarding the fall-off in DCAA audit output, a DOD spokesperson attributed the phenomenon to "greater diligence" by auditors, stating "the decrease in audits over the last few years is largely due to an increased emphasis on quality and implementing additional audit procedures." We, like most of the government contracting universe, were concerned about DCAA's audit productivity while being unconvinced that quality had improved to a noticeable degree. Nonetheless, that was the official party line; and so long as that remained the party line, DCAA seemingly had free rein to follow its own GAGAS-inspired path, unfettered by industry and customer complaints about their lack of added value to the defense acquisition oversight process.

When Grant Thornton released its annual Government Contractor Survey in early 2011 we quoted some bits but [opined](#) that "*Complaints are pouring in from all fronts, but seemingly to no effect. It seems that nobody in the Pentagon is able or willing to rein-in DCMA and DCAA.*"

But we think the party line is evolving, if at a snail's pace.

This year, the Grant Thornton survey had a little more traction, and we were happily surprised at the questions it engendered in the mind(s) of at least one traditional DCAA cheerleader—POGO. Here's a link to the [Government Executive article](#) on the GT Survey. The GovExec article notes "signs of friction in contractor-government relations" as if it were brand-new news, but let's skip that and focus on the meat of the article, which reported—

In the [17th Annual Government Contractor Industry Survey](#) released Monday by Grant Thornton LLP, contractor relationships with auditors were rated either fair or poor by 19 percent of surveyed companies, up from 11 percent the previous year. Relationships with contracting officers were rated fair or poor by 10 percent of respondents, double the previous year's total.

Only 22 percent of respondents said the government resolved contract disputes efficiently, a drop from previous surveys.

The GovExec article also reported—

The survey also found that profits improved slightly from the previous year. The biggest cost

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factor within these firms was executive compensation, and survey analysts said they disagreed with the methods the Defense Contract Audit Agency uses in determining whether to allow such costs.

'While government contracting has never been a model of efficiency, it is our view that the decline in efficiency and business relationships during the past few years can be traced directly to changes in DCAA policy adopted after [Government Accountability Office] reports were issued in July 2008 and September 2009,' [the GT authors] wrote.

'Unfortunately, the GAO criticized the DCAA for having a management and agency culture that focused on a production-oriented mission, emphasizing the need for timeliness in supporting the needs of contracting officers in the procurement process,' the survey said.

The GT Survey (link in the GovExec snippet above) asserted—

...in our view, the quality of the audit reports being issued by the DCAA under the new policies is far lower than was the case prior to the GAO reports. It appears that the net result from the GAO reports is that the DCAA's production-oriented culture has been replaced by a system in which the DCAA takes far longer to issue lower quality reports to a contracting officer who must seek DCAA concurrence before conceding some of the DCAA's positions in negotiations with the contractor. A possible remedy for the current inefficiencies that plague government contracting would be a statement of the basic principle that an audit report must be completed in a timely fashion if it's going to be useful as part of an efficient and cost-effective procurement process. ... It is unfortunate that the GAO did not focus its attention more closely on the way the DCAA allocates its resources rather than criticizing the DCAA for a perceived lack of independence or inadequate documentation in the work-paper files.

POGO [reacted](#) to the GT Survey in a very interesting way. In one of Nick Schwellenbach's last POGO blog posts, he wrote—

Grant Thornton is clearly offering industry's perspective. But the strong words they have on the Defense Contract Audit Agency (DCAA)—long the bane of government contractors—and that of the Government Accountability Office (GAO), which issued two very critical reports on DCAA are worth noting. ...

It's been well-established that DCAA is taking far longer to issue audit reports and that their coverage of contracts has plummeted even as their staff has significantly grown. But the justification has been that the fewer audits produced covering fewer contracts are of higher

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quality. Grant Thornton's report disputes that and claims that taxpayers are being served less effectively.

Is this a case of industry trying to mislead the public with misinformation? Or is there something to their claims? One thing is true: one measure of success should be whether DCAA is having a greater impact on the procurement process. If it is increasingly marginal and producing lower quality reports, how are taxpayers coming out better?

Perhaps GAO should do as Grant Thornton suggests and look at how DCAA spends its time and if there are better outcomes for taxpayers now than before the reforms took place. That would make a good deal of sense and would constitute important oversight of this extremely critical but largely unknown agency.

We were somewhat stunned that POGO would be open to the idea that Grant Thornton—and by extension a horde of government contractors—might actually be speaking the truth when they voice criticism of the audit agency, and voice concerns about the lack of productivity (and quality) and impacts on the procurement process. We think the truth of the situation is becoming obvious, even to organizations who have, in the past, appeared to be deaf to the voices of the government contractor community.

Maybe nothing will change in the near future, but—hey—*it's a start*.